

**China**
**ADD** (no change)

Consensus ratings\*: Buy 23 Hold 6 Sell 10

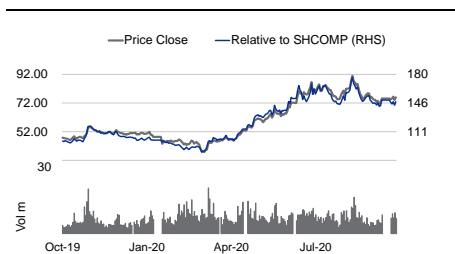
Current price:	Rmb76.00
Target price:	Rmb102.0
Previous target:	Rmb102.0
Up/downside:	34.2%
CGI / Consensus:	36.3%

Reuters:	600600.SS
Bloomberg:	600600 CH
Market cap:	US\$13,280m
	Rmb89,203m
Average daily turnover:	US\$75.79m
	Rmb522.2m
Current shares o/s:	1,351m
Free float:	67.2%

\*Source: Bloomberg

**Key changes in this note**

➤ NA



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	-3.6	-12.3	59.3
Relative (%)	-4.7	-11.4	47.9

<b>Major shareholders</b>	% held
Tsingtao Brewery Group	32.8
HKSCC Nominees Ltd	45.4

**Analyst(s)**
**Lei Yang**

 T (86) 21 6162 9676  
 E yanglei@chinastock.com.hk

**Sun Feifei**

 T (86) 21 6162 5750  
 E sunfeifei@chinastock.com.hk

# Tsingtao Brewery-A

## Sep sales boosted by National Day holiday

- The Mid-Autumn Festival and National Day holidays boosted beer sales growth in Sep; we expect Tsingtao to achieve positive yoy sales growth in 3Q20.
- We expect Tsingtao's sales to grow by 5% yoy in 3Q20, with net profit up by 10.5% yoy, better than our previous expectation.
- Reiterate ADD with an unchanged DCF-based TP of Rmb102

### Mid-single-digit sales growth expected in 3Q20

Distributors accumulated inventories in late 2Q20 to prepare for the upcoming summer sales, which resulted in weak beer production volume growth in Jul and Aug. Total beer industry output volume increased mildly by 0.7% in July and dropped by 3.8% yoy in Aug, from strong volume growth of 9.9% yoy in 2Q20, according to the National Bureau of Statistics. Based on our channel checks, we expect sales volume of Tsingtao to have remained flattish yoy in Jul-Aug and turned positive yoy in Sep, driven mainly by strong market demand during the Mid-Autumn Festival and National Day holidays. We now expect Tsingtao to achieve mid-single-digit sales growth in 3Q20.

### Limited impact from current COVID-19 cases in Qingdao

According to the Qingdao Municipal Health Commission, as at 14 Oct, there were a total of 78 COVID-19 cases, of which 64 had recovered and been discharged from hospital, while 13 cases were being treated in isolation hospitals. So far, 8.3m permanent residents in Qingdao have been tested for the coronavirus, accounting for 88% of the total population in 2019. We think the outbreak in Qingdao will have a limited impact on Tsingtao's performance, as so far, the Tsingtao factory in Qingdao is still operating normally. The outbreak will temporarily affect beer sales in the catering channel in Qingdao, which is estimated to make up only a small portion of Tsingtao's sales.

### Better outlook for 4Q20

4Q is generally a low season for beer sales, and we expect 4Q20F sales growth to decline slightly because of the current COVID-19 outbreak in Qingdao. However, Tsingtao has continually upgraded its product mix, so we expect its overall ASP to consistently improve. The price of international barley dropped by 10% yoy in Aug and 11% YTD2020, and the high-end canned product contribution has gradually increased for Tsingtao, so we expect the overall GPM to improve yoy in 2H20. Considering the slowdown in the closure of underperforming factories in FY20F because of the coronavirus situation, the related impairment expenses will also be significantly lower than last year's, and we expect the loss in 4Q20F to narrow.

### Reiterate ADD with an unchanged DCF-based TP of Rmb102

We will review our forecasts and TP on 29 Oct, when Tsingtao releases its detailed 3Q20 financial results. We like Tsingtao, because we see large margin expansion potential, driven by 1) consistent product structure premiumization; and 2) its first equity incentive plan for management, which will start this year. We expect the plan to significantly enhance the motivation of core employees and improve Tsingtao's operating efficiency in the long term.

Financial Summary	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (Rmbm)	26,575	27,984	27,051	28,490	30,229
Operating EBITDA (Rmbm)	3,110	3,411	3,531	4,104	4,569
Net Profit (Rmbm)	1,422	1,852	1,981	2,233	2,513
Core EPS (Rmb)	1.22	1.54	1.57	1.83	2.03
Core EPS Growth	16.1%	26.4%	2.0%	16.3%	10.9%
FD Core P/E (x)	62.27	49.26	48.31	41.54	37.46
DPS (Rmb)	0.48	0.55	0.59	0.66	0.75
Dividend Yield	0.63%	0.72%	0.77%	0.87%	0.98%
EV/EBITDA (x)	29.31	25.91	24.76	20.90	18.34
P/FCFE (x)	35.40	30.38	55.36	38.47	33.24
Net Gearing	(65.5%)	(75.5%)	(75.9%)	(78.3%)	(81.4%)
P/BV (x)	5.71	5.36	5.05	4.70	4.38
ROE	9.4%	11.2%	10.8%	11.7%	12.1%
CGI/consensus EPS (x)			0.93	0.88	0.86

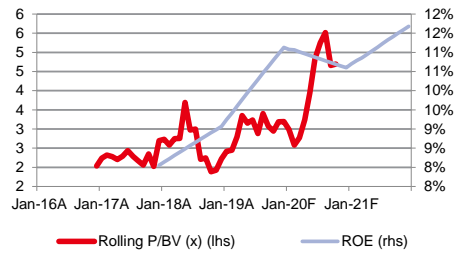
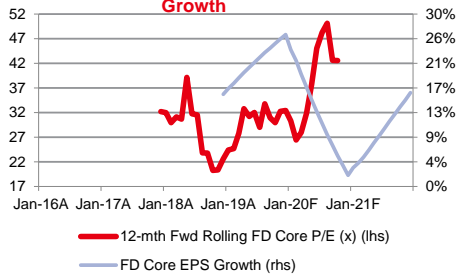
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

# Sep sales boosted by National Day Holidays

**Figure 1: Preview 3Q20F results for Tsingtao**

(Rmb m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20F	yoy
Total turnover	7,951	8,599	8,346	3,087	6,293	9,386	8,763	5%
yoy (%)	11.4%	7.3%	-1.7%	5.2%	-20.9%	9.1%	5.0%	
Tax and surcharges	-601	-720	-681	-311	-423	-781	-729	7%
Other income	140	174	128	277	131	219	150	17%
Distribution and selling expenses	-1,391	-1,598	-1,346	-768	-1,341	-1,524	-1,423	6%
Administrative and general expenses	-282	-317	-307	-996	-243	-267	-400	30%
Asset impairment loss	0	1	18	-133	-1	0	0	
Operating profit	1,018	1,025	1,179	-1,034	644	1,674	1,357	15%
Net profit	808	823	955	-734	537	1,318	1,055	10%
yoy (%)	21.1%	48.0%	19.8%	8.3%	-33.5%	60.2%	10.5%	
<b>Margins</b>								<b>ppt chg</b>
Gross profit margin excl: tax	39.7%	40.5%	40.3%	29.1%	40.1%	42.9%	42.9%	2.6%
Sales tax	7.6%	8.4%	8.2%	10.1%	6.7%	8.3%	8.3%	0.2%
Gross profit margin incl: tax	32.1%	32.2%	32.2%	19.0%	33.3%	34.6%	34.6%	2.4%
S&D expense ratio	17.5%	18.6%	16.1%	24.9%	21.3%	16.2%	16.2%	0.1%
G&A expense ratio	3.5%	3.7%	3.7%	32.3%	3.9%	2.8%	4.6%	0.9%
Operating profit margin (%)	12.8%	11.9%	14.1%	-33.5%	10.2%	17.8%	15.5%	1.4%
Net profit margin (%)	10.2%	9.6%	11.4%	-23.8%	8.5%	14.0%	12.0%	0.6%

SOURCES: CGIS RESEARCH, COMPANY DATA

**BY THE NUMBERS**
**P/BV vs ROE**

**12-mth Fwd FD Core P/E vs FD Core EPS Growth**

**Profit & Loss**

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>Total Net Revenues</b>	<b>26,575</b>	<b>27,984</b>	<b>27,051</b>	<b>28,490</b>	<b>30,229</b>
<b>Gross Profit</b>	<b>7,693</b>	<b>8,590</b>	<b>8,628</b>	<b>9,515</b>	<b>10,216</b>
<b>Operating EBITDA</b>	<b>3,110</b>	<b>3,411</b>	<b>3,531</b>	<b>4,104</b>	<b>4,569</b>
Depreciation And Amortisation	-1,250	-1,222	-1,132	-1,335	-1,389
<b>Operating EBIT</b>	<b>1,860</b>	<b>2,189</b>	<b>2,399</b>	<b>2,769</b>	<b>3,180</b>
Financial Income/(Expense)	497	484	485	484	485
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	23	54	34	34	35
<b>Profit Before Tax (pre-EI)</b>	<b>2,725</b>	<b>3,055</b>	<b>3,121</b>	<b>3,625</b>	<b>4,022</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>2,380</b>	<b>2,727</b>	<b>2,917</b>	<b>3,288</b>	<b>3,699</b>
Taxation	-819	-798	-853	-962	-1,082
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,561</b>	<b>1,929</b>	<b>2,064</b>	<b>2,326</b>	<b>2,617</b>
Minority Interests	-139	-77	-82	-93	-104
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,422</b>	<b>1,852</b>	<b>1,981</b>	<b>2,233</b>	<b>2,513</b>
Recurring Net Profit	1,649	2,084	2,125	2,472	2,741
<b>Fully Diluted Recurring Net Profit</b>	<b>1,649</b>	<b>2,084</b>	<b>2,125</b>	<b>2,472</b>	<b>2,741</b>

**Cash Flow**

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>EBITDA</b>	<b>3,110</b>	<b>3,411</b>	<b>3,531</b>	<b>4,104</b>	<b>4,569</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	664	817	137	384	454
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	232	-198	-300	-306	-421
Net Interest (Paid)/Received	-14	-14	-13	-13	-13
Tax Paid					
<b>Cashflow From Operations</b>	<b>3,992</b>	<b>4,017</b>	<b>3,355</b>	<b>4,169</b>	<b>4,589</b>
Capex	-703	-907	-1,500	-1,500	-1,500
Disposals Of FAs/subsidiaries	-114	559	0	0	0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>-817</b>	<b>-348</b>	<b>-1,500</b>	<b>-1,500</b>	<b>-1,500</b>
Debt Raised/(repaid)	-275	-290	0	0	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-639	-711	-795	-896	-1,008
Preferred Dividends					
Other Financing Cashflow	273	150	-13	-13	-13
<b>Cash Flow From Financing</b>	<b>-641</b>	<b>-851</b>	<b>-808</b>	<b>-909</b>	<b>-1,021</b>
Total Cash Generated	2,535	2,818	1,047	1,760	2,067
<b>Free Cashflow To Equity</b>	<b>2,900</b>	<b>3,379</b>	<b>1,855</b>	<b>2,669</b>	<b>3,089</b>
<b>Free Cashflow To Firm</b>	<b>3,189</b>	<b>3,682</b>	<b>1,868</b>	<b>2,682</b>	<b>3,102</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(Rmbm)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	12,536	15,302	16,349	18,108	20,176
Total Debtors	111	151	127	133	141
Inventories	2,651	3,182	2,764	2,838	2,990
Total Other Current Assets	2,463	2,367	2,288	2,410	2,557
<b>Total Current Assets</b>	<b>17,760</b>	<b>21,002</b>	<b>21,527</b>	<b>23,489</b>	<b>25,865</b>
Fixed Assets	10,327	10,222	10,794	11,146	11,429
Total Investments	370	377	377	377	377
Intangible Assets	3,907	3,866	3,662	3,475	3,302
Total Other Non-Current Assets	1,711	1,846	1,846	1,846	1,846
<b>Total Non-current Assets</b>	<b>16,315</b>	<b>16,311</b>	<b>16,679</b>	<b>16,844</b>	<b>16,954</b>
Short-term Debt	296	271	271	271	271
Current Portion of Long-Term Debt					
Total Creditors	2,572	2,388	2,343	2,406	2,536
Other Current Liabilities	9,218	10,695	10,356	10,879	11,512
<b>Total Current Liabilities</b>	<b>12,087</b>	<b>13,354</b>	<b>12,970</b>	<b>13,556</b>	<b>14,318</b>
Total Long-term Debt	1	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,298	4,045	4,045	4,045	4,045
<b>Total Non-current Liabilities</b>	<b>3,298</b>	<b>4,045</b>	<b>4,045</b>	<b>4,045</b>	<b>4,045</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>15,385</b>	<b>17,399</b>	<b>17,015</b>	<b>17,601</b>	<b>18,364</b>
Shareholders' Equity	17,970	19,172	20,349	21,850	23,428
Minority Interests	719	742	824	917	1,021
<b>Total Equity</b>	<b>18,690</b>	<b>19,913</b>	<b>21,173</b>	<b>22,767</b>	<b>24,450</b>

**Key Ratios**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	1.13%	5.30%	(3.33%)	5.32%	6.10%
Operating EBITDA Growth	9.0%	9.7%	3.5%	16.2%	11.3%
Operating EBITDA Margin	11.7%	12.2%	13.1%	14.4%	15.1%
Net Cash Per Share (Rmb)	9.06	11.13	11.90	13.20	14.73
BVPS (Rmb)	13.30	14.19	15.06	16.17	17.34
Gross Interest Cover	160.9	184.8	197.6	233.0	263.6
Effective Tax Rate	34.4%	29.3%	29.3%	29.3%	29.3%
Net Dividend Payout Ratio	36.7%	34.1%	36.4%	34.9%	35.6%
Accounts Receivables Days	1.73	1.71	1.88	1.66	1.66
Inventory Days	48.75	54.89	59.06	53.88	53.15
Accounts Payables Days	47.80	46.68	47.00	45.68	45.07
ROIC (%)	20.8%	26.8%	30.4%	35.4%	40.9%
ROCE (%)	14.8%	15.5%	15.0%	16.3%	16.9%
Return On Average Assets	4.33%	4.97%	4.72%	5.55%	5.90%

**Key Drivers**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP (% chg, main prod./serv.)	0.4%	5.0%	3.3%	4.1%	6.0%
Unit sales grth (% , main prod./serv.)	2.9%	1.7%	-4.3%	2.3%	1.5%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

**Disclaimer**

This research report is not directed at, or intended for distribution to or used by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject China Galaxy International Securities (Hong Kong) Co., Limited ("Galaxy International Securities") and/or its group companies to any registration or licensing requirement within such jurisdiction.

This report (including any information attached) is issued by Galaxy International Securities, one of the subsidiaries of the China Galaxy International Financial Holdings Limited, to the institutional clients from the information sources believed to be reliable, but no representation or warranty (expressly or implied) is made as to their accuracy, correctness and/or completeness.

This report shall not be construed as an offer, invitation or solicitation to buy or sell any securities of the company(ies) referred to herein. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. The recipient of this report should understand and comprehend the investment objectives and its related risks, and where necessary consult their own independent financial advisers prior to any investment decision.

Where any part of the information, opinions or estimates contained herein reflects the personal views and opinions of the analyst who prepared this report, such views and opinions may not correspond to the published views or investment decisions of China Galaxy International Financial Holdings Limited, its subsidiaries and associate companies ("China Galaxy International"), directors, officers, agents and employees ("the Relevant Parties").

All opinions and estimates reflect the judgment of the analyst on the date of this report and are subject to change without notice. China Galaxy International and/or the Relevant Parties hereby disclaim any of their liabilities arising from the inaccuracy, incorrectness and incompleteness of this report and its attachment/s and/or any action or omission made in reliance thereof. Accordingly, this report must be read in conjunction with this disclaimer.

**Disclosure of Interests**

China Galaxy Securities Co., Ltd. (6881.HK; 601881.CH) is the direct and/or indirect holding company of the group of companies under China Galaxy International Financial Holdings Limited. China Galaxy International may have financial interests in relation to the subjected company(ies)' securities in respect of which are reviewed in this report, and such interests aggregate to an amount may equal to or less than 1% of the subjected company(ies)' market capitalization unless specified otherwise.

One or more directors, officers and/or employees of China Galaxy International may be a director or officer of the securities of the company(ies) mentioned in this report.

China Galaxy International and the Relevant Parties may, to the extent permitted by law, from time to time participate or invest in financing transactions with the securities of the company(ies) mentioned in this report, perform services for or solicit business from such company(ies), and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto.

Galaxy International Securities may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the last 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking services to the company(ies) mentioned in this report.

Furthermore, Galaxy International Securities may have received compensation for investment banking services from the company(ies) mentioned in this report within the preceding 12 months and may currently seeking investment banking mandate from the subject company(ies).

China Galaxy International has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of Galaxy International Securities and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately.

**Analyst Certification**

The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject, securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by the analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the securities covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the securities covered in this research report three business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong-listed companies covered in this report; and (4) have any financial interests in the Hong Kong-listed companies covered in this report.

**Explanation on Equity Ratings**

**ADD** : The stock's total return is expected to exceed 10% over the next 12 months.

**REDUCE** : The stock's total return is expected to fall below 0% or more over the next 12 months.

**HOLD** : The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

**Copyright Reserved**

No part of this material may be reproduced or redistributed without the prior written consent of China Galaxy International Securities (Hong Kong) Co., Limited.

China Galaxy International Securities (Hong Kong) Co. Limited, CE No.AXM459

20/F, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong. General line: 3698-6888.